**NJEDA Economic Impact Model to Determine Net Benefit Test Eligibility**

**Overview**

NJEDA has built an economic impact model to help measure the likely impact of a given development to the state and municipality. We use multipliers from the RIMS II data base, published by the US Department of Commerce, along with our own econometric analysis and modeling to assess economic outputs, impacts and likely jobs creation. In addition to this information we also estimate likely personal and corporate earnings yield from a given project.

We estimate both direct and indirect impacts on a one-time and ongoing basis. Direct impacts are those that result from capital flows for people and material directly associated with the project. (i.e. on site workers salaries, construction materials, etc.) Indirect impacts are those from cash flows other than those generated directly from the project (i.e. sandwich makers, equipment repair companies, and local retail.) One-time benefits are those associated with the project’s capital investment while the ongoing benefits are attributable to the project’s annual economic activity.

Our model is flexible enough to provide unique analyses for office, retail, industrial, hotel and residential projects in all New Jersey counties. Our model will be used for the Urban Transit Hub Tax Credit program. Note that per the enabling legislation for this program, Hub requires a combined state and local impact analysis.

**Inputs**

The main developer inputs that go into the model are the following:

- Project Location (e.g, Newark, Essex County)
- Total Construction/Project Costs (e.g, $100M)
- Property Development Type (e.g, Office, Warehouse)
- Percentage Cost Breakdown (e.g, 50% Office, 50% Warehouse)
- Job Categories & Percentages (e.g, 50% Management, 50% Administrative Positions)

Based on these inputs and several optional inputs, the model calculates the likely impact on job creation, spillover economic activity, and earnings. However, whenever actual values are known, staff will override the model’s estimates to use the known values rather than the model’s calculated results.

The RIMS multipliers that are used provide a customized value for each location, project type and job categories. We use Final Demand, Employment, and Earnings multipliers from the data
base as well as what are called “Direct effect” multipliers to estimate the portions of total impact attributable to Direct and Indirect activity.

**Approach**

Once we have calculated all of our relevant data points, either through the model generated figures or using the actual estimates from the project, we then calculate likely increases to Sales Tax, Gross Income Tax, Property Tax, Corporate Business Tax, and miscellaneous local and state taxes applicable to the development, all over a period not to exceed 20 years.

First, we calculate the ongoing effects from the project, both direct and indirect. The direct effects are the most assured of realization, and we use either the model generated figures or actual numbers when they are available for measures of Sales Tax, Corporate Income Tax (CBT) and Wage Taxes. This gives us the expected Direct Ongoing Annual Taxes.

For the indirect ongoing effects, we start by taking the Annual Corporate Spending (on items such as office supplies, etc) and multiply that by the RIMS factor to give us a measure of Indirect Annual Spending. To be conservative, we then apply a 3.5% sales (as opposed to current full 7%) tax rate on that figure. Next, we look at the annual payroll from the project and apply a RIMS factor to get to the Indirect Earnings that can be expected from the project. We then apply a 5% wage tax (current range in NJ is 3%-8%) on that figure to come up with the expected wage taxes on Indirect Earnings. Then we simply add that figure to the sales taxes on the Indirect Annual Spending in order to give us the Indirect Ongoing Annual Taxes.

The sum of the Direct Ongoing Annual Taxes and the Indirect Ongoing Annual Taxes gives us the Annual Ongoing Net Benefit. That figure is grown at a 3% annual rate for 20 years (measure of useful life) to come up with the Cumulative Net Benefit. That number is taken back to its Present Value at a 6% discount rate. Lastly, we add on to that ongoing number the one time Taxes that can be expected from the construction of the project. We use the same concept of using RIMS multipliers and applying a 3.5% tax rate on sales activity and a 5% tax rate on wages. This gives us the total state benefits in the form of tax revenues.

Staff then completes a separate analysis for the local net impact and the State impact. Under the local analysis, we use the estimated incremental local portions of revenues, and then subtract the estimated incremental costs of the municipality for servicing the development (such as additional police, fire, infrastructure, etc.), to form the basis of the local net benefits. The estimated incremental costs are either as estimated by the municipality or from data from public filings.

For the State analysis, we will compare all the estimated non-local revenues to all requested State funding assistance. We take the present value of those costs, and incentives and finally...
subtract the figure from the total state benefits derived above. This provides us with the Present Value of the Net Benefits to New Jersey.

In no case is the maximum award greater than the capital investment in the project. In analyzing the value of jobs in the model, the EDA considers whether the employment is “at risk” of being located outside of the state, or whether the project entails moving jobs from suburban to urban locations.

Jobs that are moving from a suburban location to an urban location, but are not considered “at risk” are given 25% of the credit that an “at risk” job would be given. Jobs that are neither “at risk”, classified as a “suburban to urban move”, nor otherwise deemed new jobs to the state are not considered to provide any incremental benefit to the state under this model and are thus given no credit in the net benefits calculation.

Jobs that fall into the freight and rail or urban grocery store or logistics (warehousing, manufacturing, distribution, and manufacturing) categories, are given a 25% increase to the total calculated benefit from those jobs. The bonus addresses the hurdle that these projects have in meeting the net benefits test due to lower direct wages paid for workers employed in these industries, and is consistent with the program’s policy and intent to recognize freight locations and mixed use projects as economic impact drivers.

This logic is meant to quantitatively implement the priorities of the State of New Jersey and NJEDA in a way that is transparent and fair to all applicants.

In each case, if this Present Value results in a figure that is 110% greater than the requested amount of financial assistance, then the project passes the net benefit test. The result is a model that takes an econometrically defensible and prudent approach to assessing the economic impact of a project.